FDIC State Profile

Fall 2004

Colorado

Is Colorado finally out of a jobless recovery?

- Colorado employment growth turned positive for the first time since mid-2001 but still ranked in the bottom half of the nation (See Chart 1). Moreover, employment levels remain well below the pre-recession peak reached in early 2001.
- Although the state experienced year-over-year employment gains in second quarter 2004, recent data indicate job losses in July, suggesting a still fragile recovery.

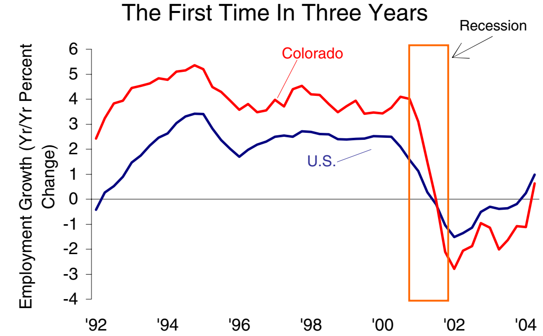
Colorado metropolitan statistical areas (MSAs) report mixed employment results.

- **Colorado Springs was** the only MSA that posted employment gains, while **Boulder** was still contracting and Denver was almost flat.
- The goods producing sectors, particularly construction and manufacturing, were still struggling and delaying economic recovery in Colorado MSAs (See Chart 2).
- The **Denver** MSA was most affected by losses in the goods producing sector. The expansive high-tech manufacturing sector had yet to post job growth since the recession began; however, analysts point to signs of an emerging high-tech recovery.
- The Colorado Springs economy outperformed the state's economy for the first half of the year. The return of soldiers to Fort Carson from active duty is likely stimulating the economy through increased consumer spending. Presently, Colorado Springs is not slated to see a base closure during the next round of base realignments and closings.
- Boulder started to recover despite a weak state economy. Jobs gains were seen in the localized fields of defense and computer storage devices.

Will water limit Colorado's ability to sustain economic growth?

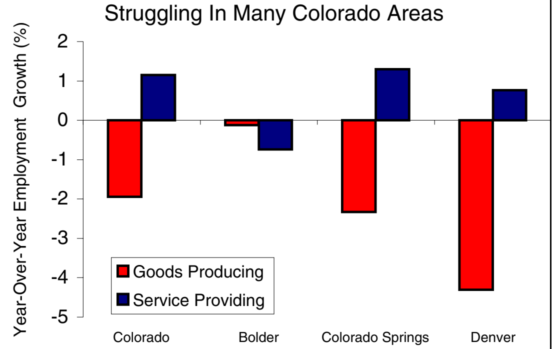
- Research at the U.S. Geological Survey on the drought cycles of the American West suggests that the relatively

Chart 1: Job Growth In Colorado Is Positive For The First Time In Three Years



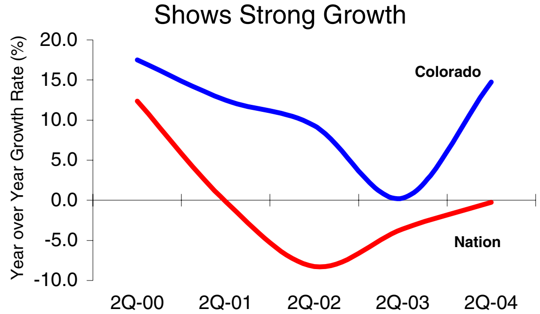
Source: Bureau of Labor Statistics (Haver Analytics)

Chart 2: The Goods Producing Sector Is Still Struggling In Many Colorado Areas



Source: Bureau of Labor & Statistics

Chart 3: Colorado C&I Lending Shows Strong Growth



Note: Commercial & Industrial loans for all insured institutions.
Source: FDIC

wet weather of the 20th century may have been an historical aberration, and not the norm on which land development decisions were based.[1] If this evidence is correct, an escalation of legal, financial and economic issues related to water resources can be expected.

- Colorado ranked third in the country for population growth according to the 2000 census and, therefore, has increased demand for drinking water, as well as water for industrial and recreational use. Current drought conditions and concerns about future water availability could mean the future rate of expansion may be slower than previously experienced.

Rebounding commercial and industrial (C&I) lending signals a brighter economic outlook.

- C&I lending for Colorado institutions appears to be turning around. The growth in C&I lending was 14.7 for the four quarter period ending June 30, 2004, the highest growth rate in four years, and the seventh highest growth rate nationwide (See Chart 3).

- New firms increased 15.9 percent between 2002 and 2003, the sixth highest growth rate in the nation. New firm creation can explain, in part, the increased demand for C&I loans.

- Senior lending officers reported that demand for small firm C&I loans is at its highest level in ten years.[2] This highlights both the increasing demand and desire for banks to expand this lending segment.

Uncertainty of both the timing and magnitude of interest rate movements presents challenges extending beyond balance sheet rate sensitivity.

- Even with a favorably shaped yield curve, compression of net interest margins (NIM) continues (See Chart 4). At 4.24 percent, the median NIM for smaller banks (under $500 million) was the lowest since third quarter 1990.

- Rising rates signal curtailment of mortgage activity, particularly for the refinance segment. Lower portfolio volume and fee generation will force decisions about loan mix strategy, cost cutting or underwriting standards.

- While many bank balance sheets may be positioned to benefit from higher interest rates, a rapid rise could adversely affect asset quality. Debt service coverage for borrowers with adjustable rate mortgages could be stressed, and the ability to refinance balloon payments on fixed-rate loans may be limited by higher interest charges.

Increasing consumer bankruptcy rates highlight the vulnerability of personal balance sheets.

- Personal bankruptcy rates continued to hover near record levels, rising 68 percent from the lows experienced just prior to the last recession.

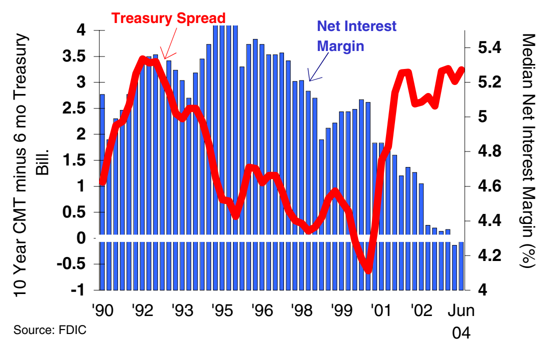
- While consumer past-due loan rates among Colorado insured institutions have fallen over the past several years, the upward trend in consumer debt service burdens and bankruptcy filings suggests that consumer credit quality is an area to watch going forward.

Despite weakness in commercial real estate (CRE) markets, lenders have not experienced deterioration in their CRE portfolios.[3]

- The Denver MSA office vacancy rate was virtually unchanged at 20.5 percent for the second quarter ending June 30, 2004. According to *PPR Fundamentals*, most new leases involve only relocations within the metro area. As the local economy improves, net absorption is expected to strengthen. At the same time, slowing construction activity suggests rents and occupancy should improve going forward.

- Despite general weakness in the CRE sector, Colorado insured institutions have increased CRE exposure to the highest level in a decade. Even with this heightened exposure, CRE loan past-due and charge-off rates have remained stable over the past five years.

Chart 4: The Upwardly Sloping Yield Curve Has Not Sustained Margins



Source: FDIC

[1]Johnson, Kirk, and Dean Murphy. "Drought Settles In, Lake Shrinks, and West's Worries Grow." May 2, 2004. New York Times.
[2]Source: Federal Reserve Senior Lending Survey/Haver Analytics.

[3]Commercial real estate loans are defined as non-residential real estate, multi-family, and construction and development loans.

Colorado at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	177	179	185	190	197
Total Assets (in thousands)	37,430,302	49,366,260	53,825,259	48,508,800	45,402,227
New Institutions (# < 3 years)	12	9	10	8	11
New Institutions (# < 9 years)	30	26	26	24	26

Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	8.48	8.33	8.29	8.45	8.45

Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	1.46%	1.48%	1.48%	1.51%	1.29%
Past-Due and Nonaccrual >= 5%	19	23	14	15	13
ALLL/Total Loans (median %)	1.20%	1.20%	1.27%	1.13%	1.11%
ALLL/Noncurrent Loans (median multiple)	2.46	1.88	1.98	2.95	2.95
Net Loan Losses/Loans (aggregate)	0.28%	0.24%	0.31%	0.28%	0.28%

Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	15	13	11	10	11
Percent Unprofitable	8.47%	7.26%	5.95%	5.26%	5.58%
Return on Assets (median %)	1.16	1.15	1.25	1.27	1.35
25th Percentile	0.77	0.68	0.82	0.90	0.95
Net Interest Margin (median %)	4.30%	4.36%	4.72%	4.85%	5.05%
Yield on Earning Assets (median)	5.66%	6.00%	6.84%	8.45%	8.48%
Cost of Funding Earning Assets (median)	1.19%	1.51%	1.98%	3.44%	3.43%
Provisions to Avg. Assets (median)	0.09%	0.12%	0.14%	0.10%	0.11%
Noninterest Income to Avg. Assets (median)	0.82%	0.86%	0.81%	0.85%	0.89%
Overhead to Avg. Assets (median)	3.30%	3.28%	3.38%	3.42%	3.46%

Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	75.19%	72.28%	72.42%	77.75%	74.43%
Loans to Assets (median %)	62.69%	62.36%	63.78%	65.41%	64.11%
Brokered Deposits (# of Institutions)	34	30	24	25	21
Bro. Deps./Assets (median for above inst.)	4.42%	3.66%	4.68%	4.70%	2.18%
Noncore Funding to Assets (median)	15.98%	15.87%	14.92%	15.48%	13.96%
Core Funding to Assets (median)	72.99%	73.80%	73.56%	73.60%	74.69%

Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	90	92	96	97	101
National	47	49	52	55	58
State Member	29	28	27	28	28
S&L	9	9	9	9	9
Savings Bank	2	1	1	1	1
Stock and Mutual SB	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	78	8,638,563	44.07%	23.08%
Denver CO PMSA	53	18,226,380	29.94%	48.69%
Colorado Springs CO	14	1,479,295	7.91%	3.95%
Boulder-Longmont CO PMSA	9	2,983,913	5.08%	7.97%
Greeley CO PMSA	7	1,431,066	3.95%	3.82%
Ft Collins-Loveland CO	7	3,772,462	3.95%	10.08%
Grand Junction CO	6	491,513	3.39%	1.31%
Pueblo CO	3	407,110	1.69%	1.09%